



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 25, 2003**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Stewardson National Bank  
Charter Number 13226**

**110 East Main Street  
Stewardson, Illinois 62463**

**Comptroller of the Currency  
Champaign Field Office  
3001 Research Road Suite E2  
Champaign, IL 61822**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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### **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

- **The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.**
- **The bank’s loan to deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.**
- **A substantial majority of loans are in the bank’s assessment area.**

## **DESCRIPTION OF INSTITUTION**

The Stewardson National Bank (SNB) is a \$42 million intrastate bank situated and operated from a main office located at 110 East Main Street in Stewardson, Illinois. Stewardson is a small rural community located in the southeast corner of Shelby County, ten miles north of Effingham, Illinois. The population of Stewardson is approximately 700.

Prairie Financial Bancorp, a one-bank holding company located in Stewardson, Illinois, owns SNB. Total holding company assets as of December 31, 2002, were approximately \$47 million. SNB has one branch office within 10 miles of the main office. This branch is located in Effingham, IL. The bank also has one deposit taking automated teller machine (ATM) that is located at the branch in Effingham, IL. An additional non-deposit taking ATM is located in a convenience store located in Stewardson, Illinois.

SNB offers a full range of retail and commercial banking products normally associated with a community bank. These products include commercial and agricultural loans (operating, equipment, and real estate), residential real estate loans (construction, purchase, refinance, and home improvement), and consumer installment loans (new and used autos and trucks, debt consolidation, unsecured, and credit cards). SNB’s primary lending products include residential real estate loans, commercial loans, and agricultural loans. At December 31, 2002, total loans amounted to \$19.4 million, which comprised forty five percent (45%) of total assets. The following represents this institution’s loan and lease portfolio mix as of December 31, 2002:

Residential Real Estate Loans	\$7,173	37%
Commercial Loans	\$6,513	34%
Agricultural Loans	\$4,188	22%
Consumer Loans	\$1,456	7%
Other	\$ 90	<1%
Total	\$19,420	100%

Tier one capital totals \$4.5 million as of December 31, 2002. The bank does not have any financial or legal impediments restricting it from meeting the credit needs of its local community. The bank has adequate resources to provide for the credit needs of its assessment area. The type and amount of CRA activities are consistent with the bank’s size, its financial capability, local economic conditions, and credit needs of the community. SNB’s last CRA examination was November 14, 1997 and the rating was “Satisfactory”.

## DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area (AA) consists of eight block-numbering areas (BNAs) in Effingham County (# 9501, #9502, #9503, #9504, #9505, #9597, #9598, and #9599) and two BNAs in Shelby County (#9594 and #9595). Nine (90%) of these BNAs are middle-income geographies. One (10%) of the BNAs is an upper-income geography. There are no low- or moderate-income geographies in the AA. This AA conforms to the regulation and does not arbitrarily exclude low- or moderate-income areas.

The following demographic information on the bank's AA is based on 1990 census data:

Population	38,584 people live in the assessment area.
Housing Stock	85% of the housing units are 1-4 family.
Occupancy	72% owner occupied; 21% renter occupied; 7% vacant.
Home Values	The median home value is \$51,578.
Age of Homes	The median year of homes built is 1964.
Income	Median family income of the assessment area is \$32,640.
Income Levels	15% of the families are low-income, 17% are moderate-income, 25% are middle-income, and 43% are upper-income.
Updated Income	2002 HUD Non-MSA Illinois median family income is \$46,700.

Many of the communities in the county are growing retirement areas with 12% of the number of households headed by residents over 65 years of age. Ten percent of the households are below poverty level.

The local economy in Shelby County is stable and is driven by agriculture. The town of Effingham, located in Effingham County, has evolved into a regional trade, employment, industrial and transportation center. According to a recent issue of "Site Selection Magazine", Effingham is in the top 100 U.S. small towns for companies who want to provide a better quality of life for their employees. From 1998 to present, more than twenty companies have built or expanded in Effingham. Effingham's population continues to grow and in the last ten years has increased by 4.5%. Effingham County has seen a population growth of 8.1% for the same period. Service manufacturing, agriculture, and retail trade drive the area economy. The largest employers include Quebecor World Color Press, Quebecor World Petty, St. Anthony's Memorial Hospital, Stevens Industries, Wal-Mart, Three Z Printing, Effingham Community Unit Schools, Yellow Book USA, Sherwin-Williams Paint Company, and Fedder's Appliances.

Unemployment is in line with state and national averages in Effingham County. However in Shelby County the unemployment rate exceeds both state and national rates. In December of 2002, the unemployment rate for Shelby County was 7.8% and the unemployment rate for Effingham County was 5.8%. The state unemployment rate for the same period was 6.3%, compared to the national rate of 5.7%.

SNB faces competition from rural community banks and from branches of larger regional and national banks located in Shelby and Effingham Counties. These include Effingham State Bank,

Washington Savings Bank, First Mid-Illinois Bank and Trust, Crossroads Bank, Fifth Third, Shelby County State Bank, and Community Bank of Shelby County. Additional competition includes Farm Credit, which has offices located in Shelbyville, Illinois and Effingham, Illinois.

A community service organization in Effingham County was contacted during this examination. The main community need, according to the contact, is upscale retail stores. According to the contacts, area banks are doing a good job of investing in community development.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

This review concentrated on the bank's primary loan products. Based upon the bank's portfolio mix as of December 31, 2002, residential real estate loans, commercial loans, and agricultural loans were the primary loan products. In addition, fixed rate residential real estate origination and refinance loans sold into the secondary market are also considered primary loan types. In 2001, nine residential real estate loan refinances totaling \$589,400 were originated and sold. In 2002, six residential real estate loan refinances totaling \$475,590 were originated and sold. Based upon this information, the samples used to evaluate the lending performance components were residential real estate loan originations, residential real estate refinances, commercial loans, and agricultural loans.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration for residential real estate refinances and poor penetration for residential real estate originations, among individuals of different income levels (including low- and moderate-income). Penetration among businesses and farms of different sizes is good.

#### Residential Real Estate Loan Originations and Refinances

The bank's performance with low- and moderate-income borrowers for residential real estate loan originations is less than favorable compared to the demographic data from the 1990 census, which shows that low-income families comprise 15% of the assessment area's population and moderate-income families comprise 17% of the assessment area's population. It is important to note, however, that 10% of the assessment area's population is below poverty level, making it difficult to own a home.

The bank's performance with low- and moderate-income borrowers for residential real estate loan refinances is reasonable compared with the percent of low- and moderate-income families that make up the assessment area's population.

The bank's performance with middle- and upper-income borrowers for both residential real estate loan originations and refinances is also reasonable. The 1990 census data shows that middle-income families comprise 25% of the assessment area's population and that upper-income families comprise 43% of the assessment area's population.

It is also important to note that during 2001 and 2002, the bank originated and sold fifteen residential real estate refinance loans within its assessment area. These loans totaled \$1,064,989.

Of these loans, five percent (5%) of the dollar (\$50,241) and seven percent (7%) of the number (1) were made to low-income borrowers. Twenty-three percent (23%) of the dollar (\$244,048) and twenty-seven percent (27%) of the number (4) were made to moderate-income borrowers. Additionally, thirty percent (30%) of the dollar (\$321,600) and thirty-three percent (33%) of the number (5) were made to middle-income borrowers, and forty-two percent (42%) of the dollar (\$449,100) and thirty-three percent (33%) of the number (5) were made to upper-income borrowers.

The following tables show the distribution of residential real estate loan originations and refinances among borrowers of different income levels within the assessment area:

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
RE Originations	15%	9% 1	17%	9% 1	25%	18% 2	43%	64% 7
RE Refinances	15%	16% 3	17%	21% 4	25%	37% 7	43%	26% 5

Source: This table is based on a sample of 11 residential real estate loans that were originated in 2001 and 2002 and on a sample of 19 residential real estate loans that were refinanced in 2001 and 2002. 100% of all loans originated and refinanced were utilized in this analysis.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Dollar of Loans	% of AA Families	% of Dollar of Loans	% of AA Families	% of Dollar of Loans	% of AA Families	% of Dollar of Loans
RE Originations	15%	3% \$27,000	17%	3% \$24,300	25%	13% \$106,125	43%	81% \$661,581
RE Refinances	15%	8% \$93,037	17%	14% \$165,548	25%	24% \$297,402	43%	54% \$652,400

Source: This table is based on a sample of 11 residential real estate loans that were originated in 2001 and 2002 and on a sample of 19 residential real estate loans that were refinanced in 2001 and 2002. 100% of all loans originated and refinanced were utilized in this analysis.

### **Commercial Loans**

Within the bank's assessment area, eighty-five percent (85%) of the number and eighty-six percent (86%) of the dollar of twenty commercial loans sampled were to small businesses. A small business is defined as those businesses with annual gross revenues of less than one million dollars. This activity is good when compared to the number of businesses located in the assessment area (76%) that have revenues equal to, or less than, one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the assessment area:

**Table 3 - Borrower Distribution of Loans to Businesses in the AA**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	76%	8%
% of Bank Loans in AA by #	17 (85%)	3 (15%)
% of Bank Loans in AA by \$	\$573,923 (86%)	\$93,000 (14%)

Source: This table is based on a sample of 20 commercial loans that were originated in 2001 and 2002, and business demographic data. In the assessment area demographics, 16% of businesses did not report revenue data.

### **Agricultural Loans**

Within the bank's assessment area, 100% of the number of loans and 100% of the dollar of loans were to small farms. A small farm is defined as those farms with annual gross revenues of less than one million dollars. This activity is good when compared to the number of small farms located in the assessment area (98%) that have revenues equal to, or less than, one million dollars.

The following table shows the distribution of agricultural loans among farms of different sizes within the assessment area:

<b>Table 4 - Borrower Distribution of Loans to Farms in the AA</b>		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms*	98%	2%
% of Bank Loans in AA by #	20 (100%)	0 (0%)
% of Bank Loans in AA by \$	\$553,790 (100%)	\$0 (0%)

Source: This table is based on a sample of 20 agricultural loans that were originated in 2001 and 2002, and farm demographic data.

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is reasonable based on the institution's size, financial condition, and assessment area's credit needs. During the past 22 calendar quarters, SNB's loan-to-deposit ratio has averaged 78.72%. Four banks with asset size of \$21 million to \$142 million and having at least one office in the assessment area were used for comparison. The average loan-to-deposit ratios of these four banks ranged from 63.73% to 91.21%.

### **Lending in Assessment Area**

A substantial majority of the loans being originated is within the bank's assessment area. Based upon a sample of loans (20 commercial, 13 residential restate loan originations, 19 residential real estate loan refinances, and 20 agricultural loans) originated in 2001 and 2002, ninety-four percent (94%) of the number and ninety-four percent (94%) of the dollar amount of the loans were made within the bank's assessment area. The following tables show the dollar amount and the number of loans from our sample that fall within the assessment area and outside the assessment area:

<b>Table 5 - Lending in the AA by Number and Dollar Volume</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	19	95%	1	5%	20	\$666,923	89%	\$85,000	11%	\$751,923
Residential RE Loan Originations	11	85%	2	15%	13	\$819,006	88%	\$109,500	12%	\$928,506
Residential RE Loans Refinances	1	100%	0	0%	19	\$1,208,387	100%	\$0	0%	\$1,208,387
Agricultural Loans	19	95 %	1	5%	20	\$553,790	97%	\$20,000	3%	\$573,790
<b>Totals</b>	68	<b>94%</b>	4	6%	72	\$3,248,106	<b>94%</b>	\$214,500	6%	\$3,462,606

Source: This table is based on a sample of 20 commercial loans, 13 residential real estate loan originations, 19 residential real estate loan refinances and 20 agricultural loans originated in 2001 and 2002

### **Geographic Distribution of Loans**

A geographic distribution analysis was not performed. The bank's assessment area does not include any low- or moderate-income BNAs.

### **Responses to Complaints**

The Stewardson National Bank has not received any complaints about its performance in helping to meet the assessment area needs during this evaluation period.

### **Fair Lending Review**

An analysis of recent public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in November 1997.